ORIGINAL **PIERCE PROPOSED AMENDMENT # 1**

0000132845

TIME/DATE PREPARED: December 9, 2011

COMPANY: Arizona Public Service Company RECEIVED AGENDA ITEM NO.: U-14

2011 DEC 12 P 4: 01

DOCKET NO.: **E-01345A-11-0264** OPEN MEETING DATE: December 13/14, 2011

AZ CORP COMMISSION DOCKET CONTROL

Arizona Corporation Commission DOCKETED DEC 12 2011 DOCKETED BY

Page 8, Line 27

INSERT new Finding of Fact:

"The Commission agrees with APS's proposed plan to allow the Company to install production meters for previously installed residential and non-residential grid-tied photovoltaic systems, as well as new residential and non-residential grid-tied photovoltaic systems. The public and the Commission should know whether UFI systems are performing as expected. We also believe that APS should transition its compliance reporting for UFI systems from "presumed performance" to actual performance. Accordingly, for compliance reporting purposes, all systems with a production meter installed on or before December 31 of the prior reporting year will be reported on actual production of the system. All systems with a production meter installed on or after January 1of the current reporting year will be reported on an annualized basis determined based on the average production of the metered systems. If a system with a production meter fails to produce as expected, only actual energy produced will be counted towards compliance. For example: if a system is disconnected or a customer chooses not to repair a broken system, APS will only count the actual production. APS shall modify its DEAP to be consistent with this Order."

Page 13, Line 28

INSERT new Finding of Fact:

"The Commission agrees with Staff that the renewable energy industry should bear the responsibility for marketing renewable energy in Arizona, particularly in light of the fact that the demand for incentive dollars has outstripped supply for the last two years. Accordingly, we will eliminate APS' "Advertising" budget on Line 35 and further reduce APS' "Renewable Energy Non-Incentive Cost" budget on Line 34 by $1.6 million, leaving a total balance of $400,000. APS should transfer responsibility and budget for updating and maintaining the accuracy of content on APS.com to its administration budget. APS is authorized to supplement its DE Administration budget by $100,000 to support these tasks."

Page 17, Line 15

INSERT new Finding of Facts:

"The Commission authorizes APS to recover up to $1 million in revenue requirement for the Chino Valley Project through the RES adjustor provided the Project begins producing electricity for APS' customers sometime in 2012."

THIS AMENDMENT:

______ Passed ____________ Passed as amended by ________________________

______ Failed ______ Not Offered ______ Withdrawn

Recovery of Purchased Power Renewable Costs through the PSA

"On November 4, 2011, Freeport-McMoran Copper and Gold Inc. and Arizonans for Electric Choice and Competition (hereafter collectively "AECC") filed exceptions to Staff's Memorandum and Proposed Order in this matter. AECC objected to Staff's statement that utility-owned renewable assets would be "removed from the REST adjustor every few years as they are added to rate base." AECC believes the portion of the cost of APS-owned renewable generation that exceeds the Market Cost of Comparable Conventional Generation ("MCCCG"), as the term is defined in R14-2-1801.K, should remain in the REST surcharge and not swept into APS' base rates.

"AECC explains its objections to APS' proposal to rate base all of its utility-owned renewable generation as follows:

> The RES Tariff is the appropriate vehicle for recovering prudently-incurred above-market renewable energy costs. Moving above-market costs from RES funding into base rates, as APS intends, is directly contrary to the express purpose of the RES Tariff. AECC is concerned that moving above-market costs from RES funding into base rates will mask the true costs of the RES program to the public by making the above-market costs of the program seem lower than they actually are. Transparency dictates that the above-market costs of APS' renewable programs remain in the RES Tariff for cost recovery.

"AECC indicates that it intends to oppose, in APS' current rate case, "the inclusion in rate base and/or base rates of any APS renewable costs in excess of the [MCCCG]." In fact, AECC's witness, Kevin Higgins, has already filed testimony in Docket No. E-0134A-11-0224, indicating that 64% of the cost of APS' AZSun Program, comprised of APS-owned solar generation assets, is above MCCCG and should be recovered in the REST, with 36% of the costs being recovered in base rates. In response to a data request issued by AECC, APS responded that 30% of the cost of its AZSun program is above MCCCG and 70% is below MCCCG. AECC does not ask us to resolve this dispute in this docket but asks that we remove any statements in this Order that presumes that utility-owned assets will be swept into base rates in APS' rate case. AECC's request is reasonable, and we will do so.

"However, AECC's exceptions have highlighted an aspect of APS' plan and surcharge design that we believe is potentially confusing to customers. APS currently proposes to recover the entire 2012 revenue requirement for its AZSun program through the REST surcharge. The 2012 revenue requirement for APS AZSun program is $38.9 million. If recovering the above MCCCG costs of the AZSun program through base rates will make it seem <u>less</u> expensive than it is, then recovery of the below MCCCG portion of the AZSun program through the REST surcharge will make it seem <u>more</u> expensive than it is.

"The most obvious way to address this apparent mismatch would be to recover below MCCCG costs through base rates and to recover above MCCCG costs in the REST surcharge. For the AZSun program, this mechanism for recovery would mean rate base treatment for below MCCCG costs and REST surcharge treatment for above MCCCG costs. However, general ratemaking considerations make it impractical to rate base APS' AZSun assets at this time.

"Rather than adjudicate, in this proceeding, the dispute between APS and AECC concerning the amount of the AZSun program that is at or below MCCCG, we simply note that no party in the APS rate case, or in this proceeding, has argued that it is less than 36%. We are therefore comfortable concluding that at least 36% of the $38.9 million, or approximately $14 million, is below MCCCG.

"Accordingly, we instruct APS to transfer $14 million of purchased power expenses from its REST to its PSA. These expenses are eligible for the PSA under the PSA's Plan of Administration and will serve as a proxy for the below MCCCG costs associated with the AZSun program. Such a shift will not affect how much APS ultimately recovers; it will only affect the mechanisms through which recovery occurs. Furthermore, this shift will ensure that the REST surcharge better reflects the ultimate costs attributable to above MCCCG at this time."

Page 18, Line 8

After "$1.3 million." INSERT:

"The Commission agrees with Staff that a reduction to this budget line item is warranted. We are becoming more and more concerned about the appropriateness of including these types of expenses in the REST* surcharge. However, in order to accommodate a transition away from this funding source, we will reduce Staff's proposed $1.3 million budget by $400,000 to reflect half of APS's original proposed budget of $1.8 million, leaving a total of $900,000 for this line item."

* It is noteworthy that our Energy Efficiency rules expressly authorize the recovery of research and development expenses but our REST rules do not.

Page 26, Line 1

Table 6, DELETE column labeled "2012 APS Option 2" and INSERT new column to right of table labeled "Modified Staff Option A" with applicable data.

Page 26, Line 20

Table 8, DELETE column labeled "2012 APS Option 2" and INSERT new column to right of table labeled "Modified Staff Option A" with applicable data.

Page 27, Line 3

Table 9, DELETE column labeled "2012 APS Option 2" and INSERT new column to right of table labeled "Modified Staff Option A" with applicable data.

Page 28, Line 1

REPLACE Table 10 with new Table 10 with column labeled "Modified Staff A" as follows:

Line No.	($ MILLIONS)	APS	Modified STAFF A	STAFF A	STAFF B
1	Renewable Generation				
2	***Renewable Generation Contracts and O&M***				
3	Purchases and Generation	$ 67.5	$ 48.2	$ 65.8	$ 65.8
4	Administration	1.9	1.9	1.9	1.9
5	Implementation	1.3	1.3	1.3	1.3
6	***Total RG Contracts and O&M***	***$ 70.7***	***$ 51.4***	***$ 69.0***	***$ 69.0***
7	***Offsets***				
8	Estimated Green Choice Revenue Credit	$ (0.6)	$ (0.6)	$ (0.6)	$ (0.6)
9					
10	***Total Renewable Generation (line 6 + line 8)***	***$ 70.1***	***$ 50.8***	***$ 68.4***	***$ 68.4***
11					
12	Customer Sited Distributed Energy				
13	***Existing Contracts and Commitments***				
14	DE RFP	$ 4.9	$ 4.9	$ 4.9	$ 4.9
15	Innovative Technologies	0.2	0.2	0.2	0.2
16	PBIs (Existing)	7.9	7.9	7.9	7.9
17	Flagstaff CPP	0.4	0.0	0.4	0.4
18	Wholesale DE	0.2	0.2	0.2	0.2
19	***Total Existing Contracts and Commitments***	***$ 13.6***	***$ 13.2***	***$ 13.6***	***$ 13.6***
20					
21	***New Incentives and Commitments***				
22	Schools and Government Program	6.8	$ 5.1	5.1	5.1
23	Customer Sited Community Solar	2.9	0.9	1.5	1.5
24	EE/RE Integrated Pilot	1.5	0.0	.7	.7
25	EARN	0.5	0.0	0.3	0.3
26	***Total New Incentives and Commitments***	***$ 11.7***	***$ 6.0***	***$ 7.6***	***$ 7.6***
27					
28	***Total Incentives & Commitments (line 19 + line 26)***	***$ 25.3***	***$ 19.2***	***$ 21.2***	***$ 21.2***
29					
30	***Non-Incentive DE Costs***				
31	Administration	$ 2.2	$ 2.2	$ 2.1	$ 2.1
32	Implementation	5.0	4.7	4.7	4.7
32.1	Auxiliary DE Implementation Budget	------	2.0	-------	-----
33	Information Technology	1.8	1.8	1.8	1.8
34	Renewable Energy Non-Incentive Costs	2.3	0.4	2.0	2.0
35	Advertising	0.7	0.0	0.2	0.2
36	***Total Non-Incentive DE Costs***	$ 12.0	11.1	$ 10.8	$ 10.8
37					
38	***Total Customer Sited DE (line 28 + line 36)***	***$ 37.3***	***$ 30.3***	***$ 32.0***	***$ 32.0***
39					
40	*Research, Commercialization & Integration*	1.8	0.9	1.3	1.3
41					
42	**Base RES Budget (line 10 + line 38 + line 40)**	**$ 109.2**	**$ 82.0**	**$ 101.7**	**$ 101.7**
43					
44	***Total RES Budget***				
45	Option 1 additions	$ 14.8		----	$ 19.0
46	**Base RES plus Option 1 total**	**$ 124.0**		----	**$ 120.7**
47	Option 2 additions	$ 32.0		----	----
48	**Base RES plus Option 2 total**	**$ 141.2**		----	----
49	Option 3 additions	$ 42.3	$ 27.0	$ 30.0	----
50	**Base RES plus Option 3 total**	**$ 151.5**	**$ 109.0**	**$ 131.7**	----

Page 31, Line 25

"We will adopt Staff Option A, as we have modified it herein. We further modify the DE Elements of Staff Option A as follows:

	Modified Option A	Staff Option A	APS Option 3
Residential PV Incentives	$ 18,800,000	$ 18,000,000	$ 31,400,000
Non-PV Technology Incentives	$ 3,750,000	$ 3,750,000	$ 6,000,000
Energy Star® Plus Solar Homes	$ 1,450,000	$ 3,250,000	$ 2,600,000
Small, Non-residential UFIs	$ 2,400,000	$ 4,400,000	$ 2,000,000
Medium-size, Non-residential PBIs	$ 300,000[1]	$ 300,000	$ 150,000
Large size, Non-residential PBIs	$ 300,000[1]	$ 300,000	$ 150,000
Total	$ 27,000,000	$ 30,000,000	$ 42,300,000

[1] The combined Lifetime PBI Authorization for medium and large projects will be increased by a total of $60 million and incurred in equal amounts in program years 2012, 2013 and 2014. Consistent with the description in APS's Option #3, the total lifetime PBI authorization will increase from $670 million to $730 million by 2014.

Based on the reductions in the cost per watt for residential up-front incentives and the $24 million residential distributed energy budget, this Commission believes that more systems could be installed in 2012 than in any prior program year. Consistent with and to help APS to manage this increase in volume, the Commission authorizes APS to collect $2 million in auxiliary DE implementation budget to be drawn against as follows. If the residential up-front incentive drops to $0.45 per watt in 2012 APS may transfer $1,000,000 into its implementation budget. If the residential up-front incentive drops to $0.10 per watt in 2012 APS may transfer an additional $1,000,000 into its implementation budget. Any excess funds remaining in the implementation budget at the end of the year will roll-over as a credit to APS' 2013 RES budget.

We will also set the new home building incentive at $0.65 per watt. In light of the longer development cycle for new home systems, this incentive will not be subject to reduction by the trigger mechanism to reduce PV up-front incentives adopted in this Order.

In a filing dated December 18, 2011, APS identified $5.1 million of tax credits available from its AZSun projects and $11.9 in previously collected RES funds that are available to be applied to this year's budget. We believe it is appropriate for APS to credit its 2012 RES budget by $13 million and its 2013 budget by $4 million. Accordingly, APS should carry a $4 million reserve in its 2012 budget and file for Commission consideration the appropriate application of this balance in its 2013 RES Implementation Plan. Therefore, we authorize APS to collect $90 million via the REST surcharge for its 2012 budget.

Page 32, Line 18

INSERT "Modified" before "Staff Option A" 18,000,000" INSERT "18,800,000"

Page 33, Line 3

INSERT “Modified” before “Staff” STRIKE “proposed”

Make all conforming changes